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 Managing director of Ioto International, a flavour house based in Curitiba, Brazil, and Ioto USA, in Greenville, North Carolina.



▶ **George Cassels-Smith**
 Chief executive officer at Tobacco Technology (TTI), a privately owned tobacco-flavouring company headquartered in the United States.



▶ **Rodrigo Morales**
 Director of sales TTI for Latin America/Caribbean.

“Our market is a value-for-money one”

Interview with flavour manufacturers

TJI: Some industry experts have said that the flavour market in Latin America is underdeveloped. What is your take on the current situation?

Gilson Luiz Torrens: Based on our company’s experience, I would say that the tobacco flavours business is definitely a growth market in the Latin America region. This growth is mainly due to the introduction of new products such as water pipe tobacco and highly flavoured cigarillos and cigarettes. Ironically, changes in cigarette profiles due to legislation issues have also positively impacted on the flavours market, since somehow part of the taste that was reduced by legislative issues had to be replaced and/or compensated with the addition of flavours, mainly tobacco enhancers. We should also consider the tobacco situation in Brazil, the world’s main exporter, which indirectly helps the flavour business, as with crop after crop, the price of tobacco has been steadily increasing and the availability is not the same as it once was. Thus, when it comes to cigarettes, cigarillos and pipe tobacco, blends are changing and consequently their casing and flavouring systems must follow this trend since, at the end of the day, tobacco products must keep their primary profile, which can partially be achieved by the usage of casings and flavours.

George Cassels-Smith: Latin America is very diversified, yet dominated by a few multinational cigarette companies. Perhaps this one factor may help explain why the area is considered underdeveloped for flavouring. The large multinationals are confronted with international brands which must be modified for local markets, yet simplified by blend and flavouring for consistency

and cost savings. The OTP (other tobacco products) market, which has shown tremendous growth in Europe and North America through innovative, flavoured choices, is still in its infancy in Latin America.

What do you think makes this region different from others?

Gilson Luiz Torrens: What really differentiates our region is that our market is a value-for-money one. What I mean by this is that we have to always aim at making the best product but at a very low price. In some markets, Uruguay for example, flavoured products are acceptable, but in other countries in our region, smokers really prefer the more natural taste of tobacco.

Rodrigo Morales: In my opinion, the relative infancy and the small nature of the OTP market in Latin America, combined with consolidation of manufacturing of cigarettes, has created a slight lag in flavour development. The largest cigarette market in Latin America is Brazil, which prefers a more natural American-blend style product. The region’s second-largest market is Mexico, which craves highly flavoured, American-blend cigarettes. Venezuela is also a radically different market that overwhelmingly prefers carbon filters. Combine these very diverse markets with global brands that should have similar tastes, and the people in charge of product development become very challenged and slightly handicapped. To further challenge product development among the large multinationals is the situation where almost every country in Latin America has its own leaf production, making the politics and challenges even greater. I believe that these aspects have

delayed the proliferation of flavourings, but the problems are being addressed as we speak and this area will adopt more flavourings soon. The fact that the multinational cigarette companies are entering the OTP market is a strong sign that a change is underway.

The reduction of tar and nicotine yields in Europe and North America has, not surprisingly, affected the taste characteristics of cigarettes. Flavours helped reconstruct the original taste in those regions. How do these reductions figure in the various Latin American markets?

Gilson Luiz Torrens: Actually Brazil was one of the first countries where reduction of the deliveries was imposed, and interestingly enough, this did not change the positioning of the main brands in the market, nor their main smoking profile. Most definitely these reductions will soon be imposed in most of the countries in the region, but I believe the positioning of the brands in the various markets, as well as their smoking profiles, will not be affected seriously. There are several cigarette companies in the region who are conducting consumer tests, comparing their existing brands against their low delivery versions and the results indicate that consumers do not significantly perceive a difference between these products. However, it goes without saying that the maintenance of a brand smoking profile is helped by a flavour, along with a blend and cigarette design work.

George Cassels-Smith: As a general rule, as the deliveries of cigarettes are lowered, an increase in flavourings is used to compensate for the sensory changes. As use of the total tobacco leaf is optimised, there are many advantages to modifications through flavouring. Throughout the world, we are seeing an increased preference to lower delivery products; as Latin Americans increase their consumption of lighter products, we expect to see an increase in the usage of flavours. ▶

According to one industry analyst, the flavour market in Brazil accounts for only about four per cent but has been gaining consistently in the last five years. What is causing this?

Gilson Luiz Torrens: The Brazilian market had been through several issues in the last years, including tar and nicotine reduction, warnings on cigarette packs, restrictions in marketing material, issues around brand protection and tight government control. Every time something new happens, the market fluctuates in a different pattern for different companies. This fluctuation affects not only the flavour market, but also the whole supply chain within the tobacco industry. Despite these fluctuations, the market tends to stabilisation, and the flavour business will show a general growth or at least a more stable environment for the business.

The prognosis is that the market for flavourings will continue to grow in Latin America and particularly Brazil...

Gilson Luiz Torrens: Because there is more diversification of tobacco products for local markets and exports. Also, more countries will have to align their tobacco products according to the assorted regulatory aspects. Globalisation also figures in the mix, as well as the increases in tobacco prices which affect availability. Then you have to consider the consumer,

who is becoming more demanding. New consumers, those over the age of 18, may have different perceptions requiring new products or modified ones. When it comes to addressing all of these aspects, flavours can play a very important role.

Rodrigo Morales: I think so, too, due to the young population of Latin America and the wide diversity of taste preferences and increased economic prosperity, we expect to see a long-term increase in the amount of flavourings preferred in the region. We are already seeing a huge increase in young smokers enjoying shisha, and kretek consumption has been strong and growing for some time now. It also looks as if the OTP market will have some oral tobacco offerings in the near future.

Any particular regulatory aspects which might affect the growth of flavours in Latin American markets?

Gilson Luiz Torrens: From our point of view, regulatory aspects represent an opportunity to be more creative in the development of new products to fulfill our customer requests, to ensure that the same level of quality is there in all of our products, and, most importantly, to preserve the smoking experience. Regulatory aspects in our business represent a very important point in our daily activities and we have no other choice but to comply with any requirements in this direction if we want to be a player in the business.

George Cassels-Smith: Oddly enough, regulatory measures happening outside the region may have the most impact. The adoption of REACH in Europe and potential FDA control of tobacco in the US, which could eliminate flavouring in cigarettes sold in the US market, could be a positive for flavour usage in Latin America. The perception of flavourings could become more acceptable when they move from company secrets to government-approved ingredients.

What are some of the individual market trends currently in Latin America with regard to flavours?

Gilson Luiz Torrens: Looking at cigarettes, the main trends in Brazil, Argentina and Mexico are blended cigarettes. The best-selling products in these three countries are blended cigarettes with a moderate trend toward the so-called light versions. We also perceive a fashion niche regarding water pipe tobacco and tropical fruit flavours, such as passion fruit and mango; this is mainly going to happen in the region's biggest cities.

Rodrigo Morales: We are seeing an increase in demand for OTP style products and flavours designed to compensate for changes in blend compositions. Every cigarette company is attempting to reduce costs associated with cigarette production, and to simplify production to lower variable costs. The companies are reducing final product costs to reduce additional market losses due to large incremental increases to the tax base of cigarettes by governments over the last ten years. Argentina is the most conservative with regard to flavours and tastes, while Brazil is the most geared toward international flagship brand recognition. Mexico is a market that really demands strong flavouring and innovative products, and Venezuela is a carbon-filter market requiring vastly different flavour types.

Interview: Rosemarie Overstreet